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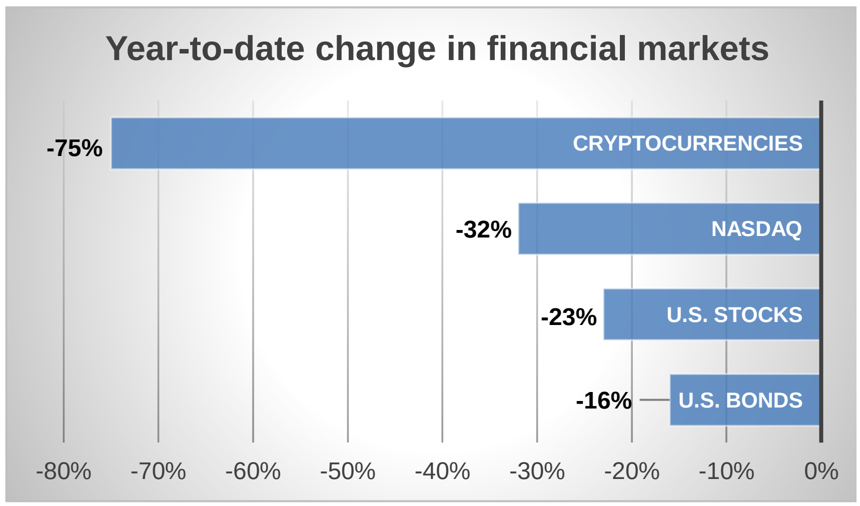
June 2022 Crescent Commentary

It probably won't surprise you to learn that financial markets just experienced their worst first half of a year since 1970. Now, that in no way implies what will happen over the next six months – markets have historically recovered after a bad first half –more on that later. For now let's look at what happened over the past six months:



Source: Yahoo Finance

As you can see, speculative and follow-the-crowd assets have gotten hit hardest, with cryptocurrencies down 75%, and the technology-heavy NASDAQ down 32%. Bonds – historically a safe haven during financial market declines – have also declined by double-digits. Why has this happened? The Federal Reserve is being forced to increase interest rates in order to fight inflation. For financial markets, interest rates act like gravity and thus higher rates bring down asset values. There's no denying the level of speculation we've seen in financial markets over the past several years with cryptocurrencies and certain areas of the stock market, and those assets now face their reckoning as the bubble appears to be bursting. As Warren Buffett says, "only when the tide goes out do you discover who's swimming naked." Fortunately for our clients, our Group has been swimming with belt and suspenders securely fastened. We prepared in advance for this moment by avoiding speculative and popular assets. As a result, our client investments have shown resilience in this time of turmoil. It will take time for the world economy to work through this period of higher interest rates and inflation, but we will get past it. Humanity has endured far greater challenges in the past.[1][2][3]

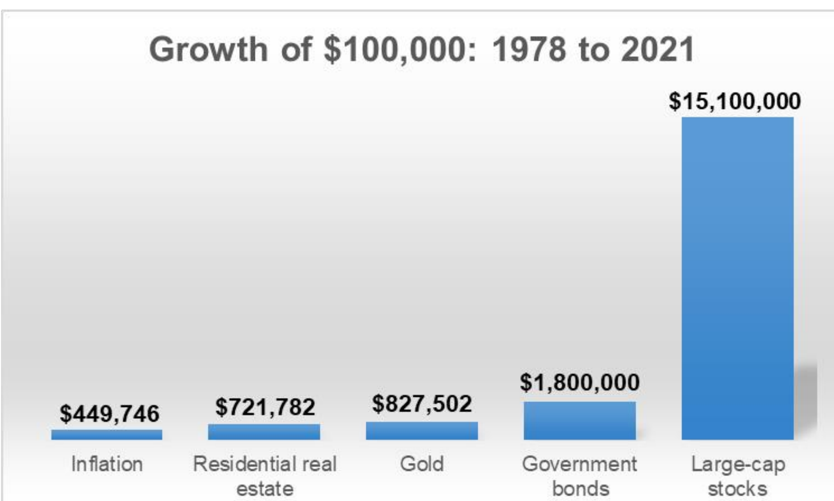
So that's what happened in the first half of the year. But the question on everyone's mind is where do we go from here? Obviously, no one can predict short-term financial market movements. But we can look at what's happened in the past as a potential guide. It turns out that a bad first half of the year for financial markets does not imply a bad second half of the year. In fact, the opposite has happened historically. In years where U.S. stocks fell 15% or more in the first half of the year, U.S. stocks actually increased an average of 24% in the second half of the year. We must emphasize that this is NOT a prediction about what will happen over the next six months. Financial markets could rise, they could fall further, or they could remain at current levels. But what that positive data does reinforce is that recoveries almost always happen unexpectedly.(1)

There's no question that a recovery will occur, it's just a matter of when. And this brings to mind the importance of remaining invested during times of market declines. Investors sometimes get tempted to start playing the in and out game with their investments when markets are in turmoil. We understand the emotions at work here, but selling investments and waiting for more clarity before moving back into investments is the wrong thing to do. We've shown this before, and we'll show it again – missing just a handful of key days in financial markets can have a detrimental impact on your financial plan:

Source: Franklin Templeton

As this graph shows, if you missed just 10 key days in financial markets over the past 20 years, it nearly cut your annual return in half. That's just 10 days out of a total of about 5,000 trading days. It's easy to see why the risks of being out of investments outweigh the risks of being in investments. With inflation currently running at 8% annually, investors sitting in cash could miss out on key days in the market recovery – whenever it happens – in addition to losing 8% annually to inflation.(4)

In times like the present, when markets are in turmoil and nothing seems to work, it's worth remembering why we invest: over the long term, a mix of stocks and bonds has done better than all other major assets classes:



Source: Invesco

While the year-to-date trends in financial markets have been disappointing, the long-term trends in these two graphs remain intact. Markets will recover at some point. Selling and trying to get back in at a better time will likely cause you to miss key days and reduce your returns substantially. And stocks and bonds will do better than other assets classes, as they have historically. In the meantime, our clients own investments that have shown resilience in this period of turmoil. We will continue to work to make sure you make the right decisions with your assets during the current period of malaise to ensure the long-term success of your financial plan.(5)

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Sources:

(1) The Wall Street Journal
(2) Forbes
(3) Yahoo Finance
(4) Franklin Templeton
(5) Invesco